# Housing costs of elderly families

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**Residential property taxes** are on the rise in many Canadian municipalities, although the reasons for the upward pressure may vary from region to region. While all homeowners feel the burden of rising property taxes, concerns are often raised for elderly homeowners since most of them live on fixed incomes. In fact, some municipalities offer tax rebates for senior homeowners. Other policies, such as tax credits in some provinces, aim to relieve the housing cost burden for all low-income individuals and families.

Taxes can be regressive or progressive. A tax is termed regressive if its rate decreases as income rises. And property taxes are demonstrably regressive with respect to family income (Boadway and Kitchen 1999; Chawla and Wannell 2003; Maslove 1973; OFTC 1993). The income tax system is progressive since to some extent it is based on ability to pay.[1]

Property tax, on the other hand, does not take this notion of ability to pay into account, and is instead levied on the assessed (market) value of property owned. Indeed, elderly low-income homeowners pay a greater proportion of their income on property taxes than their non low-income counterparts: 11.7% compared with 4.2% (Chawla and Wannell 2003). On the other hand, non low-income families have their income taxed at a rate more than five times that of their low-income counterparts (17.8% compared with 3.4%). Rising property taxes may create economic hardship for elderly homeowners with low incomes.

Concerns about the property tax burden for seniors are often related to the long period that many have lived in their homes, resulting in a discrepancy between the assessment base (the current market value of the home) and their ability to pay. The recent surge in residential housing prices has often been greatest in mature neighbourhoods with concentrations of older homeowners. Thus a general rise in mill rates (tax paid per dollar of assessment) and a relatively high increase in assessed value can create a problem for many elderly homeowners in these neighbourhoods.

Furthermore, senior families generally live on fixed incomes with little prospect of their income rising to meet expense increases that exceed cost-of-living adjustments to their public pensions. In contrast, young low-income families are at the start of their careers, and most can expect their earnings to increase with labour market experience.

But taxes are just part of the financial picture of families. While rising house prices may stimulate higher property taxes, they also represent a source of untaxed capital gains. Furthermore, the vast majority of elderly homeowners no longer carry a mortgage, which constitutes the largest component of shelter costs for the majority of younger homeowners. This article examines housing costs within the context of income and assets. The primary focus is on elderly homeowners, but younger families and renters are included for comparison. Since low-income families are also of interest to policymakers, this dimension is explored as well (see *Data source and definitions*).

## Most senior families own their home mortgage-free

Although one can imagine scenarios where couples downsize their housing once children leave, or move into rental accommodation in their senior years, most elderly families own their home and have been there for some time (Table 1). In 1999, two-thirds of families with a major income recipient 65 or over owned their home. Furthermore, with an average of 25 years in the same home, 9 in 10 of these families had completely paid off their mortgages. Overall, 60% of senior families lived in their own home mortgage-free.

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**Table 1: Homeownership by age of major income recipient**

| | Total | Renters | Owners | |
|---|---|---|---|---|
| | | | No mortgage | With mortgage |
| **65 and over** | | | | |
| All families | 2,231,800 | 732,100 | 1,353,000 | 146,700 |
| % | 100.0 | 32.8 | 60.6 | 6.6 |
| Low-income families | 253,100 | 173,400 | 70,500 | 9,200 |
| % | 100.0 | 68.5 | 27.8 | 3.6 |
| **Under 65** | | | | |
| All families | 9,959,300 | 4,097,100 | 2,021,500 | 3,840,600 |
| % | 100.0 | 41.1 | 20.3 | 38.6 |
| Low-income families | 1,870,400 | 1,508,000 | 153,900 | 208,500 |
| % | 100.0 | 80.6 | 8.2 | 11.1 |

*Source: Survey of Financial Security, 1999*

Among families with a major income recipient under 65, the rate of homeownership was somewhat lower—just under 6 in 10. However, given their lower average tenure, nearly two-thirds were still carrying a mortgage. Overall, just 1 in 5 non-senior families owned their accommodation mortgage-free.

Looking more specifically at low-income households, the rate of homeownership is again higher among elderly families (31%) than among younger families (19%). While the vast majority of low-income senior homeowners did not carry a mortgage (88%), well over half of their younger counterparts (58%) did. Overall, more than 1 in 4 low-income senior families (28%) owned their accommodation free and clear compared with just 8% of other low-income families.

## Elderly families' homes have appreciated through long tenure

As mentioned, many seniors have achieved their mortgage-free status by virtue of staying put and steadily chipping away at their mortgage principal. In addition to their debt shrinking, something else was happening—the value of their home was rising. In 1999, the average estimated home equity of homeowning senior families was $138,000, of which $83,000 (or 60%) was appreciation from the original purchase price (Table 2).

Younger homeowners generally had less equity and had not owned their home long enough to experience the same kind of appreciation as senior families. Families in which the major income recipient was between 45 and 64 had nearly as much equity in their homes as senior families ($131,000), but significantly less appreciation in value ($61,000 or 46% of the equity). Families with a major income recipient under 45 had far less home equity ($76,000 on average) and appreciation ($22,000) than older families.

**Table 2: Home equity, appreciation and wealth by age of major income recipient**

| | Home equity (E) | Appreciation (A) | Wealth (W) | E/W | A/W | A/E | Average tenure |
|---|---|---|---|---|---|---|---|
| | | $ | | | % | | years |
| **All ages** | **109,200** | **48,900** | **386,000** | **28.3** | **12.7** | **44.8** | **13.4** |
| Under 45 | 75,600 | 22,000 | 236,500 | 32.0 | 9.3 | 29.1 | 7.1 |
| 45 to 64 | 131,000 | 60,600 | 505,500 | 25.9 | 12.0 | 46.3 | 14.2 |
| 65 and over | 137,700 | 83,300 | 468,500 | 29.4 | 17.8 | 60.5 | 25.2 |

*Source: Survey of Financial Security, 1999*

## Data source and definitions

The **Survey of Financial Security** (SFS) was conducted between May and July 1999. The sample contained 23,000 dwellings from the 10 provinces. Excluded were persons living on Indian reserves, members of the armed forces, and those living in institutions such as prisons, hospitals, or homes for seniors. The SFS interview questionnaire is available free through the 'Definitions, data sources, and methods' module on the Statistics Canada Web site (www.statcan.ca). For more details about the sample, response rates, handling of missing data, weighting, and so forth, see *The assets and debts of Canadians: An overview of the results of the Survey of Financial Security* (Catalogue no. 13-595-XIE).

The survey collected socio-demographic and labour force characteristics of persons aged 15 and over, and assets and debts of their families. Income for 1998 was compiled from authorized linkage to tax records or collected in person, although respondents could also complete the questionnaire themselves. Financial information was sought from the family member most knowledgeable about the family's finances. Proxy response was accepted.

The survey asked about major ongoing expenses associated with the principal residence: mortgage payments, property taxes (including school taxes, if paid separately), rent, electricity, water, and other services. Rent was not apportioned to property tax, utility charges, or landlord's share. Although expenses could be reported monthly or quarterly, they were processed and compiled on an annual basis.

Missing property tax data were not imputed, so homeowning families who did not report property taxes paid in 1998 were excluded from the sample. Thus Tables 1, 3 and 4 are based on a sample of 15,886 or an estimated 12,187,000 families. On the other hand, Table 2 uses a sample of 8,835 or 6,323,000 homeowning families who, in addition to property taxes, reported year and purchase price of property. Families who had inherited or been gifted all or part of the property were not to report such information.

**Quality of survey data on property taxes**
The SFS estimate of property taxes paid in 1998 was $12.6 billion, compared with $18.3 billion published by the Public Institutions Division (PID) of Statistics Canada (Statistics Canada 2003). The PID data for 1998 are based on a census of municipalities obtained from provincial departments of municipal affairs. One would expect a higher estimate from the administrative data simply because of differences in coverage. While the SFS covers only owner-occupied dwellings, the administrative data also include rented and vacant dwellings as well as non-residential (commercial and industrial) properties. Overall, the SFS/PID ratio of property taxes was 69.2%.

**Property:** Refers to an owner-occupied home or farm. Property owned but used for rental or business purposes is excluded.

**Family**: Refers to economic families and unattached individuals. An economic family is a group of persons sharing a common dwelling and related by blood, marriage (including common law) or adoption. An unattached individual is a person living alone or with unrelated persons.

**Elderly family**: One with a major income recipient aged 65 or over.

**Major income recipient**: The person in the family with the highest income before tax. If two persons had exactly the same income, the older person was treated as the major income recipient.

**Pre-tax family income**: Sum of incomes received by the six oldest family members aged 15 and over during the calendar year 1998 from all sources: wages and salaries, net income from farm and non-farm self employment, investment income (interest earned, dividends, net rental income, etc.), government transfers (Employment Insurance benefits, Old Age Security, child benefits, Canada or Quebec Pension Plan benefits, social assistance, etc.), retirement pension income, alimony and scholarships. Excluded are income in kind, tax refunds, gambling gains, and inheritances.

**Low-income family**: Families are classified using the after-tax, low-income cut-offs for 1998 (Statistics Canada 1998).

**Income tax paid**: Federal and provincial income tax paid during the calendar year 1998 by all family members.

**Market value of owner-occupied home**: As reported at the time of the survey by the family member most knowledgeable about the family finances. It is not an assessed value, which is usually less than the market value.

**Purchase price of home**: Price initially paid (down payment plus any mortgage) for the home occupied at the time of the survey.

**Appreciation in home value**: Market value less purchase price.

**Home equity:** Market value of owner-occupied home less outstanding mortgage.

**Years of residence**: 1999 less the year the current home purchased. It is not necessarily the first home ever owned.

**Shelter cost** is a standard concept that includes mortgage payments and property taxes for owner-occupied residences, rent payments for renters, and utility payments and insurance for both groups. **Housing cost** in this article refers to shelter cost net of utility payments and insurance.

**Effective property tax rate**: Property tax paid as a percentage of market value.

**Gini coefficient**: A measure of inequality in the distribution of income, it lies between 0 (no inequality) and 1.0 (total inequality—that is, one family has all the income).

These differences in equity and appreciation are directly related to the housing tenure of younger and older families. Families with a major income recipient under 45 had lived in their homes just over seven years. That doubled to 14 years among families with a major income recipient between 45 and 64, then shot up to 25 years among senior families.

The long tenure of senior families and the resulting appreciation of their homes can result in property tax rises. Taking the country-wide average property tax rate of 1.22% (Chawla and Wannell 2003) as a rough guideline, senior homeowners paid about $1,000 of property taxes in 1999 on appreciation. This may present a problem for some seniors on fixed incomes. On the other side of the ledger, capital gains on the principal residence are not subject to income tax, so appreciation can be a direct contributor to family wealth. Moreover, 9 in 10 senior homeowners no longer face monthly mortgage payments, which, on average, greatly exceed property tax payments. For example, among all homeowners with mortgages, annual mortgage payments ($9,500) averaged more than five times the annual tax bill ($1,700).

### Inequality increases with housing tenure

The pre-tax income distribution of homeowning families becomes more unequal as time in the home increases. The Gini coefficient—an indicator that rises as inequality rises—was 0.320 for families with less than 5 years of residence compared with 0.409 for those with 30 or more years. Years of residence also reflects the aging of the family's major income recipient—hence, the distribution of income among families becomes more unequal as the major income recipient ages. This means that pre-tax income inequality among the elderly would be higher than among the non-elderly—confirmed by their respective Gini coefficients of 0.377 and 0.332.

Regardless of the income concept used, family income inequality grew as tenure increased. The relationship was relatively less pronounced for elderly families than for non-elderly. The after-tax family income Gini coefficient was 9% higher for the long-tenured elderly than for those with less than 5 years in the same residence. The comparable difference among the non-elderly was 30%.

Income taxes reduce family income inequality—the Gini coefficient always drops from pre-tax income when income tax is netted out. On the other hand, property taxes raise inequality—the post-property tax Gini is always higher.

**Gini coefficients for income under different concepts by tenure**

| | Total pre-tax | Less property tax | Less income tax | Less property and income tax |
|---|---|---|---|---|
| **Tenure** | | | | |
| **All families** | 0.356 | 0.363 | 0.316 | 0.324 |
| Under 5 years | 0.320 | 0.326 | 0.288 | 0.295 |
| 5-14 years | 0.342 | 0.349 | 0.305 | 0.312 |
| 14-29 years | 0.370 | 0.378 | 0.325 | 0.333 |
| 30 years and over | 0.409 | 0.420 | 0.353 | 0.364 |
| **Major income recipient 65+** | 0.377 | 0.387 | 0.314 | 0.323 |
| Under 5 years | 0.342 | 0.352 | 0.295 | 0.305 |
| 5-14 years | 0.350 | 0.360 | 0.303 | 0.313 |
| 14-29 years | 0.377 | 0.387 | 0.313 | 0.322 |
| 30 years and over | 0.395 | 0.406 | 0.322 | 0.331 |
| **Major income recipient under 65** | 0.332 | 0.338 | 0.298 | 0.304 |
| Under 5 years | 0.312 | 0.318 | 0.281 | 0.288 |
| 5-14 years | 0.327 | 0.332 | 0.292 | 0.298 |
| 14-29 years | 0.347 | 0.353 | 0.307 | 0.314 |
| 30 years and over | 0.390 | 0.399 | 0.365 | 0.376 |

*Source: Survey of Financial Security, 1999*

## Senior homeowners have greater income and wealth than renters

In any discussion of tax reform, the broader financial situation of different groups must also be considered. With reference to property taxes, the comparison group for homeowners would be those living in rental accommodation, since different mechanisms would be necessary to provide equivalent benefits.

Senior homeowners had substantially higher incomes ($41,000) than senior renters ($23,000). Furthermore, senior homeowners had accumulated more than three times the wealth (Table 3). Even if one subtracts home equity, which accounts for 30% of the wealth of senior homeowners, their holdings of other assets were more than double those of renters.

Some of the difference in the wealth of senior homeowners vis-à-vis renters can be accounted for by demographic factors. The average renter was about two years older than the average homeowner and thus may have exhausted more savings.[2] Moreover, senior families in rental

**Table 3: Mean family income and wealth by homeownership and age of major income recipient**

| | | Owners | | |
|---|---|---|---|---|
| | Renters | Total | No mortgage | With mortgage |
| **65 and over** | | | | |
| Families | 732,100 | 1,499,600 | 1,353,000 | 146,700 |
| Income ($) | 23,000 | 40,900 | 40,400 | 44,900 |
| Wealth ($) | 116,200 | 438,200 | 446,200 | 364,200 |
| **Under 65** | | | | |
| Families | 4,097,100 | 5,862,100 | 2,021,500 | 3,840,600 |
| Income ($) | 30,800 | 68,900 | 71,800 | 67,300 |
| Wealth ($) | 47,100 | 357,500 | 572,700 | 244,200 |

*Source: Survey of Financial Security, 1999*

accommodation were smaller (1.3 people on average) than homeowning families (1.8 people). However, using either a per-person measure or an equivalency measure would still leave a sizeable gap in both income and wealth between renters and owners.[3]

## Low-income renters and owners

Among senior families falling below the low-income cutoff, the incomes of renters and owners are very similar: $12,000 and $14,000 respectively. Since renter families were slightly smaller—1.1 compared with 1.4—they actually had higher incomes on a per-person basis. On the other hand, the low-income owners held nearly 10 times the wealth of renters. Even if home equity is taken out of the equation, low-income homeowners held almost five times as much in other assets as low-income renters. Moreover, among low-income senior families, the age factor is reversed: Owners were about 1.5 years older, on average, than renters.

Low-income families with a major income recipient under 65 often receive transfer payments and tax rebates. In 1999, their incomes were similar to senior low-income families—a little higher for owners, a little lower for renters. However, their families were larger, so income per person or equivalency-adjusted income would be substantially lower than for senior families. Although the wealth of younger low-income homeowners was three-quarters that of their senior counterparts, younger renters held less than half the wealth of senior renters. However, the age gap between renters and owners was much larger (9.8 years) among non-senior, low-income families, so the relative youth of renters was a major contributing factor to their lack of wealth.

## Rent, mortgage payments and property taxes for low-income families

Among low-income families, renters paid close to half of their income to a landlord: 43% for senior families, 49% for families with a major income recipient under 65 (Table 4). The relative cost burden for homeowning low-income families depends critically on whether they still carry a mortgage. Those with no mortgage spent 12 to 13% of their income on property taxes. Those who carried a mortgage typically spend more than half of their income on the combination of mortgage and tax payments: 56% for senior families and 65% for families with a major income recipient under 65.

In fact, the relative burden faced by mortgage-paying, low-income families is even greater than this comparison suggests. For example, homeowners pay their utilities separately while most renters have theirs included in the rent. Similarly, homeowners pay higher insurance premiums than renters since they must cover the cost of the structure as well as the contents. Rough calculations indicate that these two expenditures would consume about 15 to 20% of a low-income homeowner's income, compared with less than 6% for renters.[4]

Overall then, low-income homeowners without mortgages spent about a third of their income on shelter costs compared with about half for low-income renters. Data suggest that low-income mortgagees could be spending upwards of three-quarters of their income on shelter costs, indicating that many are probably running down their savings to stay in their homes.

**Table 4: Mortgages, property taxes and rent as a percentage of income by age of major income recipient***

| | | Owners | |
|---|---|---|---|
| | Renters | No mortgage | With mortgage |
| **65 and over** | 732,100 | 1,350,700 | 144,400 |
| Mortgage | ... | ... | 14.3 |
| Property taxes | ... | 4.3 | 3.7 |
| Rent | 29.2 | ... | ... |
| **Non low-income** | 558,700 | 1,282,500 | 137,500 |
| Mortgage | ... | ... | 14.0 |
| Property taxes | ... | 4.2 | 3.6 |
| Rent | 27.0 | ... | ... |
| **Low-income** | 173,400 | 68,200 | 6,900 |
| Mortgage | ... | ... | 43.1 |
| Property taxes | ... | 11.7 | 12.4 |
| Rent | 43.5 | ... | ... |
| **Under 65** | 4,097,100 | 2,021,500 | 3,840,600 |
| Mortgage | ... | ... | 14.3 |
| Property taxes | ... | 2.8 | 2.6 |
| Rent | 20.2 | ... | ... |
| **Non low-income** | 2,589,200 | 1,867,600 | 3,632,100 |
| Mortgage | ... | ... | 13.7 |
| Property taxes | ... | 2.7 | 2.5 |
| Rent | 16.1 | ... | ... |
| **Low-income** | 1,508,000 | 153,900 | 208,500 |
| Mortgage | ... | ... | 54.8 |
| Property taxes | ... | 13.2 | 9.5 |
| Rent | 48.7 | ... | ... |

*Source: Survey of Financial Security, 1999*
** Excludes homeowning families that did not report property tax.*

## Conclusion

In 1999, about 9 in 10 senior homeowners had completely paid off their mortgage. Their mortgage-free status and home equity resulted in relatively low housing costs (including property taxes) and greater wealth than enjoyed by senior renters or younger homeowners.

Among low-income families, mortgage-free homeowners were also relatively advantaged compared with renters, and particularly so compared with homeowners still carrying mortgages. However, less than 10,000 senior low-income families carried mortgages, compared with more than 200,000 low-income families with a major income recipient under 65. These numbers, in turn, pale in comparison with the throng of low-income renters—more than 1.5 million families. These families—senior or younger—spend about half of their income on shelter costs.

What these data do not reflect is the surge in housing prices since 1999. Between the first quarters of 1999 and 2004, new house prices increased by over 18%, and resale prices by one-third.[5] Since property taxes are calculated as a percentage of the value of the house, property taxes probably rose by a similar amount, assuming a constant tax rate. In contrast, the consumer price index was up by less than 13% in the same period. So property taxes have probably become somewhat more burdensome for those on fixed incomes.

On the other hand, with an average property tax rate of 1.22%, homeowner equity has gone up by $1,000 for every $12 increase in the tax bill. This increased wealth presents some options to the homeowner—for example, selling and moving to a less expensive house or condominium or into rental accommodation. Reverse mortgages and equity-secured lines of credit are also available to provide income for those wishing to remain in their home.

A number of proposals regarding municipal financing are currently under consideration in different jurisdictions, but unless they result in wholesale changes to the property tax structure, the distribution of the shelter cost burden is unlikely to change significantly.

*Perspectives*

### ■ Notes

1 Ability to pay implies that those who pay more income tax have higher incomes. Families with very low incomes are exempted from paying any at all. Other concepts underlying income tax include equity, allocation, efficiency, and redistribution (Boadway and Kitchen 1999).

2 However, Williams (2003) has demonstrated that most seniors continue to save well past age 65.

3 Equivalency scales recognize economies of scale relating to shared household expenses. The scales vary and their application to wealth is not well-developed, so their application was judged to be beyond the scope of this article.

4 The Survey of Financial Security collected information on utilities and insurance payments, but non-response was relatively high, making detailed estimates unreliable.

5 Resale price increases are based on Bank of Canada published figures using the Royal Lepage resale price index.

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